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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 001130

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DOE FOR GEORGE PERSON

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TAGS: [ENRG](#) [EPET](#) [PREL](#) [IZ](#)
SUBJECT: ELECTRICITY MINISTER DETAILS PROGRESS

Classified By: CETI EMIN Ambassador Charles Ries for Reasons 1.4 (b) and (d)

¶1. (C) SUMMARY: Minister of Electricity Kareem Wahid on April 9 detailed plans to attract private investment in power projects; complained about the lack of fuel for power; sought travel support from MNF-I for plans to show PM Maliki various projects; revealed intra-Ministerial obstacles to GOI capital investments; and affirmed that the MOE work in Basra is largely finished.

¶2. (SBU) MOE Wahid met with EMIN and DCG LtGen John Cooper, ACE/GRD Gen Dorko, and ITAO senior consultants Al Herman and Terry Barnich on April 9, and detailed his progress and worries to date in getting more electrical generation in Iraq.

Legal structure for Independent Power Producers (IPP)

¶3. (SBU) Kareem gave EMIN a copy of a request for proposals (RFP) they are sending out to 7 law firms, for development of strategies to attract private investors to power projects, preparation of bidding packages for the generating facilities, and contract award and finalization. Kareem said the RFP is going out this week and the law firms will be given a two-week period to respond. (NOTE: we understand the MOE has already been in touch with most if not all the law firms. END NOTE) There will be a similar RFP that will go out to a qualified group of technical consultants to also work on this enterprise. Kareem said the goal, with the PM's strong support, is to agree on one IPP project before the end of the year. But Kareem was quick to say that as useful as that would be, he only expected that some 10 percent of power requirements in the next two years would be met by IPPs. That translates into 200 MW (of 2000MW planned) of new capacity.

¶4. (C) Kareem also noted that some five IPP projects have been agreed to in the past 4 years, but had not proceeded to the contractual stage, in large part because they were not procedurally or economically sound. The World Bank in particular was critical of these projects, calling them inappropriate and suspect. As the MoE proceeds to consider new projects, it will not/not revive those projects (except one in Irbil that is nearing completion).

¶5. (SBU) An important issue to be resolved in order for IPP's to be viable is the availability of fuel. There have been a number of recent approaches to the MoE by companies from around the world, most of which proposed to build power plants at or near sources of dry or associated gas. That means that these proposals will have to involve the Ministry of Oil. Kareem said that within the cabinet, DPM Barham Salih was very keen to move soon on IPP's, while MoF Jabr is not happy, thinking this method will in the end be a very expensive solution to power problems. Kareem says his view is that the important thing is that the IPP opportunities

should be transparently developed and tendered. There should be no acceptances of proposals based on one-off approaches - "like Star" -- he said.

Strategic Oil Pipeline volumes

¶6. (C) Kareem complained about diminishing throughput volumes on the strategic oil pipeline. Normally moving some 80K plus barrels of oil a day north to Daura refinery and the Mussaib power plant, in recent weeks the pipeline has only carried 60kbd or less. There was no real explanation for it from the MoO. Kareem did not think the problem was lack of pressure from pump station one, but rather, shortfalls in production from the southern oil fields. Something must be done, he argued, because when the Mussaib topping plant comes on stream later this spring he will need 40 kbd to run that facility, plus another 20 kbd of crude to put through the Mussaib thermal power plant. And Daura refinery still would need fuel too.

Power plant tour for PM Maliki

¶7. (C) Kareem described his concept of a power plant tour for the Prime Minister. He is seeking MNF-I support to take the PM to Mussaib to see the nearly completed gas turbine installation and then to Qudas and the East Baghdad oil field. Kareem hopes that he can thereby convince the PM that MoE should be given responsibility for developing East Baghdad for use in Qudas. Right now East Baghdad produces 15kbd of crude, which is all burned in the 3 frame 9's he has operating at Qudas. Shortly another 3 frame 9's will be ready, but there is no more fuel for them, and the MoO shows no signs of investing to increase East Baghdad fuel production to accommodate them. MNF-I is working the

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transport issues, although it was clear from the conversation that the PM has not yet agreed to make the trip.

2008 budget instructions

¶8. (C) Kareem also complained about the 2008 budget instructions released recently by the Ministry of Finance. The MoF has released 20 percent of the MOE capital budget, but the Ministry of Planning and Development Cooperation (MoPDC) won't let it be used for anything but 20 percent of each project proposal, and even then only in whatever currency for which the expenditure was planned. This crimps Kareem because he wants to use FY08 funds to establish a USD 60 million revolving fund for spare parts, for which he needs to fund the whole expense now. Dr. Kareem called the procedures a "return to the 70's and 80's." They should trust ministers' judgments, he asserted.

GE sitrep

¶9. (SBU) Dr. Kareem said he expects the purchase of the 8 turbines from GE to be approved by the CoM on April 15. GE is to send a formal letter proposing the arrangement this week, and he will take it to the cabinet next week. The actual contract would be completed following CoM approval in principle. The 8 turbines will cost somewhere between USD 400-500 million. The MoE would then contract with reputable contractors for the "rest of plant" including transformers, switch gear and controls and installation. Kareem thinks he will place 2 of the frame 9s at Daura power plant, or maybe all 4 there if there is both space and HFO supplies. He may put 4 of the frame 6's at Taji, or two there and two at Karbala. With a good contractor, gas turbines could be installed within 12 months, as was done (using gas as feedstock) at Khor Zubayr. On April 10, Kareem reported that he had obtained preliminary approval from the cabinet to sign the contract for the eight turbines, and that he intends on meeting with GE again in Amman next Sunday, where he expects to sign the contract.

Fuel

¶10. (C) Kareem felt he is making progress in getting the PM to understand that more electricity requires more fuel. The CoM approved another USD 500 million for imported fuel this summer. The MoF says that the MoE would have to wait until the supplemental budget is passed, but Kareem thinks that they can reallocate unspent funds with the approval of CoR committee chairs (as was done with FMS in January). He has briefed the Finance Committee chair and received a sympathetic hearing. On April 10, he reported that the MOE had received legislative approval for the USD 500 million, and he intends to go to Kuwait next week to seek an increase in delivery amounts up to 2 million liters of diesel fuel per day, up from the current contract for 1.3 million liters per day.

Imports

¶11. (SBU) On Turkey, Kareem said he was at the point of washing his hands of the Kartet deal (importing electricity to Dohuk in exchange for heavy fuel oil deliveries). Kartet is hectoring him on the need to renew the HFO sales, and he wants to assign responsibility to the KRG, as they benefit from the power. The whole thing is not worth the headache to him, he claimed. EMIN warned that such a course of action would be irresponsible, given that on political grounds the GoT would likely not allow the Turkish firm to do a direct deal with the KRG authorities.

¶12. (SBU) Kareem explained the Kartet deal had been complicated by the fact that the MOE had been getting HFO from Bei Ji at 200k ID/ton, which is the "domestic" price. SOMO belatedly realized the MoE had been exporting the fuel to Kartet in Turkey, and accordingly wanted to charge them the "export" price of 300 ID/ton. The MoE is arguing that because the fuel is for power that is re-imported, it should be considered a "domestic" HFO sale. (COMMENT: this is an illustration of why tiered preferential price regimes are an opening to diversion and problems. END COMMENT)

Basra Update

¶13. (SBU) Dr. Kareem said that his repair crews in one week had replaced 85 transformers, 101 feeder lines, and repaired 3 substations in Basra. He had sent 4-6 trucks from the central region to help out in restoring power distribution systems but said that the crews had completed their work and they now are returning home.

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